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INTRODUCTION

Children's Resource Network, Ottawa 4C entered into contract number 4C-02-70001-2 with the Michigan Family Independence Agency (FIA) to provide child care referral, child care resource coordination, recruitment, and provider support, outreach, and Project Zero child care specialist services. Children's Resource Network was reimbursed for actual costs incurred for providing these services, through submission of monthly billings to FIA. The contract totaled \$1,018,762, and covered the period October 1, 2002 through September 30, 2004.

SCOPE

The Office of Internal Audit performed an audit of Children's Resource Network, Ottawa 4C to determine if the agency's billings were accurate, and if costs billed were allowable and properly supported by the accounting records and other relevant documentation, in accordance with the terms of the contract. Our audit covered the period October 1, 2002 through June 30, 2004. Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors, except that compliance with Standards 2200, Engagement Planning, and 2300, Performing the Engagement, were limited as follows: Consideration of significant risks to the activity and adequacy and effectiveness of activity's risk management and control systems was limited to those relevant to performance of duties related to Child Care Network's contract with FIA and those relevant to documenting the expenses billed to FIA. We did not consider significant risks and adequacy and effectiveness of the risk management and controls systems of Children's Resource Network's entire operation.

EXECUTIVE SUMMARY

Based on our audit, we conclude that Children's Resource Network, Ottawa 4C did not use an acceptable method for charging salaries and fringe benefit costs to FIA. For the period October 1, 2002 through March 31, 2004 the salaries and fringes were billed based on the percentages in the contract budget. In April 2004, the agency began using a time keeping system to charge the contract by the number of hours worked, and in July of 2004 they implemented a proper system for allocating administrative salaries. They have documentation to allow them to accurately determine the costs that should have been billed from January through June of 2004. Therefore, our report recommends that the Adult and Family Services Administration instruct Children's Resource Network to revise their billings for that period, based on the correct documentation.

We also noted that the PZ Coordinators were not all housed at FIA offices, as required by the contract.

AGENCY RESPONSE

The management of Children's Resource Center, Ottawa 4C has reviewed all findings and recommendations included in this report. They indicated in a letter dated January 10, 2005 that they are in general agreement with the findings and corrective action has been taken. Corrected Monthly Expenditure Reports with supporting documentation were submitted with the letter. The letter also stated that a mutual agreement has been made as to the placement of the on site coordinators.

FINDINGS AND RECOMMENDATIONS

Salaries and Fringes

1. Children's Resource Network did not properly document employees' time and activity for each of the contracts per federal requirements. Federal Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*, states in part "Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professional and non-professional) whose compensation is charged, in whole or in part, directly to awards....The reports must reflect an *after the fact* determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

Salaries and wages of all Children's Resource Network employees were charged to the various programs based on the percentage in the contract budget from October 1, 2002 through December 30, 2003. The employees did not maintain timesheets. In January 2004, the agency employees began keeping time sheets by program, but the time sheets were not used for preparation of the billings. Children's Resource Network continued to use the percentage in the contract budget. In April 2004 Children's Resource Network began using the employee timesheets to accurately bill each program for the time each employee actually spent on that program. In July 2004, Children's Resource Network also implemented an allocation system to ensure that administrative salaries were accurately charged to the programs. Children's Resource Network has documentation that could be used to determine actual hours worked on each program for the period January through March of 2004. This

information could also be used to determine an appropriate allocation of administrative salaries for January through June of 2004. They have not yet reviewed this documentation to determine if the amount of salaries billed for this period was accurate.

WE RECOMMEND the Adult and Family Services Administration instruct Children's Resource Network to revise their billings for January through June of 2004 to reflect the actual costs for salaries and fringe benefits, based on the timesheets prepared by employees for that period, and a proper allocation of administrative salaries.

PZ Coordinator

2. We found that 3 of the 4 PZ Coordinators were not housed at FIA offices, although the contract required that they be on-site coordinators. Two PZ coordinators were housed at 4-C offices in Muskegon and Ottawa Counties, and one was housed at the Intermediate School District in Allegan. The PZ coordinators attended the Work First orientations and provided day care information and referrals, and information on becoming a licensed day care center or home provider. However, they were not always on site to provide assistance to clients when they came into the local office.

WE RECOMMEND the Adult and Family Services Administration work with the local offices and Children's Resource Network to ensure that PZ Coordinators are on-site at the local offices when needed.